

**City Of Durham, North Carolina**

**MEMORANDUM**

DATE: November 15, 2004

TO: Patrick W. Baker, Interim City Manager

THROUGH: Sharon Goode Laisure, Assistant City Manager

FROM: Julie Brenman, Budget & Management Services Director  
Kenneth C. Pennoyer, Finance Director

RE: **FY 2004-05 First Quarter Financial Report**

**Executive Summary**

We are pleased to present the first Quarter Financial Report for FY 2004-05. Preliminary review of the records indicates the general fund and major enterprise funds will end the year balanced. We must emphasize this report is based on only three months of financial information. The schedules contained in this report are subject to significant change as the year progresses.

**Attached Exhibits**

A number of charts and tables are attached to this document to provide the Manager and Council with additional information on our financial status in key areas. Below, we provide an overview of the attachments.

**Exhibit 1: Performance Indicators for Major Initiatives**

This report provides performance indicator data for each outcome adopted by the City Council as part of the FY 2004-05 budget. This is a new format for this report and is intended to be the basis of a report card on our major initiatives.

**Exhibit 2: General fund Budget-to-Actual Summary and By Department**

This provides a summary of budgeted general fund dollars in each department and the actual spending in those departments during the first quarter. Based on preliminary first quarter expenditures and revenues, we project the General Fund will end the year with a \$2.5 million (1.5%) surplus. We must emphasize that these figures are subject to change as the year progresses.

We currently project that all departments will end the year within budget. Overall, we are estimating that we will spend \$2.9 million (1.6%) less than budgeted. Based on activity through the first quarter, we are projecting our revenues to come in \$366,000 (0.2%) under budget.

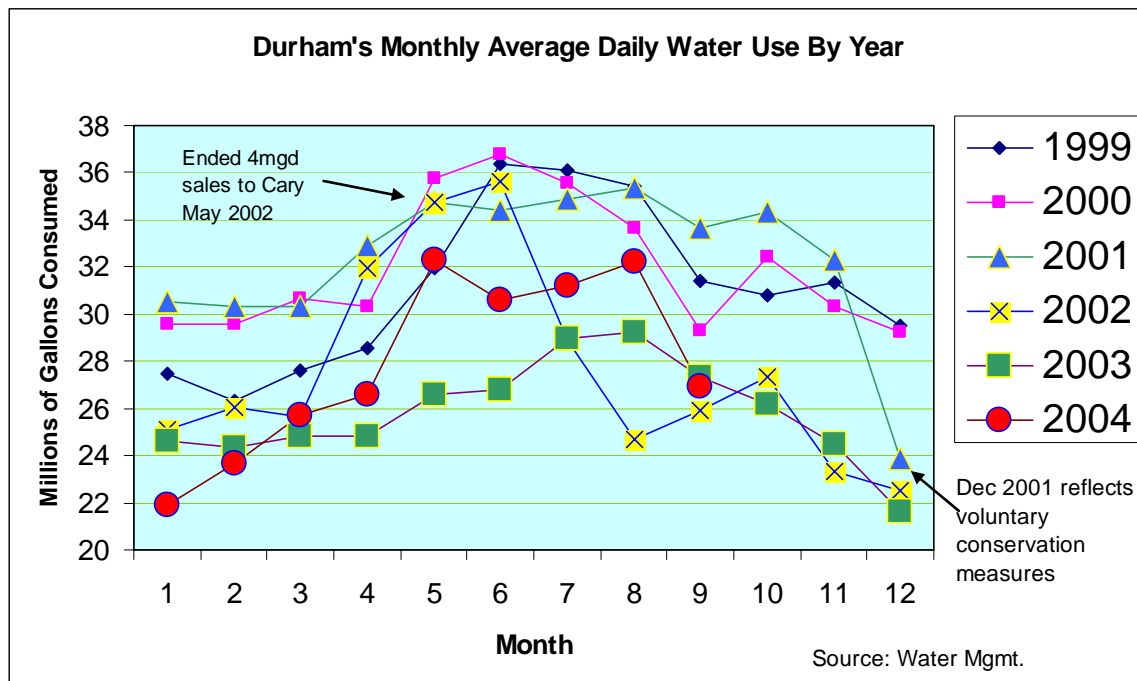
### Exhibit 3: Enterprise Fund Budget-to-Actual

This provides a summary of budgeted revenues and expenditures in each enterprise fund. We have summarized below the outcome for each major fund.

#### Water & Sewer Operating Fund

Water use for the first quarter of Fiscal 2005 is showing some recovery from the flat water use patterns over the past two years. While it is early in the year, there are indications that the rates implemented over the past two budget cycles, along with the more seasonable weather pattern, are producing the desired impact. That is, keeping the fund in compliance with revenue bond rate covenants as well as potentially providing operating reserves for debt service, deferred maintenance and capital needs.

As evidenced by the FY 2005-2010 Capital Improvement Program Budget, both water and wastewater capital needs in the near future are substantial. The ability to maintain a healthy current revenue stream is mandatory if revenue bonds are to be utilized as a CIP funding source. The current rate model shows moderate rate increases will be needed for future debt service related to CIP funding. If consistently applied, these increases can be kept well below the increases of the past two years. The current attempt to source new large or bulk water customers while the City still has adequate capacity is also a strategy that will help keep future rate increases low.



#### Storm Water Management Fund

The Storm Water Management Fund is currently projected to perform substantially at budget for the fiscal year. Expenditures will increase toward budgeted amounts with the placement of additional private property projects later in the year. The additional street

cleaning crew and equipment, located in the Solid Waste Collections Department, also come on line late in the fiscal year.

For FY 2005, storm water fees have been substantially increased to provide service enhancements, such as a new stream cleaning crew, as well as additional private property project funding. New for FY 2005, operating revenues will be transferred to Storm Water CIP accounts for private property projects as well as watershed planning and design.

#### Parking Facilities Fund

Timing of reporting and revenue recognition for this fund makes a detailed analysis difficult early in the fiscal year. However, based on the prior year results and activity reports for the first two months, the fund appears to be operating within budget expectations. This fund will continue to be closely monitored as more information becomes available.

The Parking function was outsourced during the last quarter of fiscal 2003. The Parking Fund is budgeted to generate about two-thirds of its \$2 million budget (which includes debt service on parking debts) from parking charges and receives a General Fund subsidy for the remainder.

As was noted in earlier financial reports, the parking contract contains a price break point of \$1,090,000 in Garages and Lot 8 revenues. When this break point is achieved the payment to the vendor decreases from 72.73% of these revenues to only 20% of revenues. Achievement of the price break point is the key factor to a successful year in this fund. This price break point was achieved in FY 2004.

The parking contract also includes fixed fees as well as an 8% of revenues payment to the vendor for on-street parking services. Although these services are included in the contract and in parking operations, they are accounted for separately in the General Fund and are thus not part of the Parking Fund projections.

#### Solid Waste Disposal Fund

First quarter results for the Solid Waste Disposal Fund are similar to the prior year which finished slightly under budget for both revenues and expenditures. The fund is considered to be within budget expectations at this time.

This fund provides for solid waste disposal related activities, the rubble landfill operations, post-closure monitoring of the closed landfill and related debt service. Solid Waste collections, yard waste, bulky item pickup, the Impact Team and recycling efforts are all funded through the General Fund.

The Solid Waste Disposal Fund generates about 74% of fund revenue needs through charges and other revenues.

#### Ballpark Fund

The Ballpark Fund currently relies on the General Fund for 75% of the budgeted funding. The first quarter shows both revenues and expenditures slightly behind the prior year levels. This is not currently a concern. The seasonal activity of the Ballpark, and timing of payments from vendors, makes more detailed projections difficult utilizing first quarter data.

#### Transit Operations Fund

The Transit Operations Fund appears to be within budget expectations. Revenues subsequent to the first quarter show that revenues are slightly down from budget as was the case in the prior fiscal year. Significant grant revenues are realized later in the fiscal year.

Transit Operations has changed vendors for FY 2005. As part of that transition, the new vendor has picked up significant activity that was planned under the prior contract. A budget amendment recognized this additional carryover from 2004 and programmed the carryover into FY 2005 so the new vendor could be compensated for the additional services.

The Transit Operations Fund receives a significant amount of support from other fund transfers. Specifically, the General Fund and Transit Trust Fund account for 33% of budgeted fund revenues in FY05. State grants are the other large funding source for the Transit Operations Fund. Federal grants are generally accounted for in a separate grant fund although much of this funding is utilized for maintenance and other ongoing operational needs. With the fee increases approved for FY04, charges to system riders return about 22% of the cost of operations. Federal and State sources then fund the remaining 45% of Transit operations.

#### Water and Sewer Capital Facility Fee Fund

Capital Facility Fees are charged to new development or facility expansion that results in a greater demand on the City's water supply, water treatment capacity, and wastewater treatment capacity. These fees are currently transferred to the Water and Sewer Operating Fund where they are expended on debt service associated with providing for capital facilities, the purpose for which these fee are collected.

Defined as non-operating revenues, Capital Facility Fees do not count as current revenues in the computation of revenue bond covenant debt service coverage. Thus, any increase in these fees, as was implemented for the 2005 fiscal year, will provide for current and future debt service needs, but not reduce any need for consumption and service charge fee increases related to revenue bond debt covenants.

While the timing of the collections of these fees can be somewhat sporadic, first quarter results show fund revenues are well within the expected range for this point in time.

#### Civic Center Fund

City and County contributions provide 82% of current Civic Center Fund revenues. The largest revenue source for the Civic Center Fund is the dedicated 0.85 cent of the City's property taxes (budgeted at \$1.3 million for FY 05). The County contribution is the next largest revenue source (budgeted at \$0.885 million for FY 05). The County pays a prorated portion of the actual expenditures as well as a fixed debt service contribution.

First quarter results show that the fund is operating in a similar fashion to the prior year which finished with a positive result, with both revenues and expenditures slightly down from budgeted levels.

#### **Exhibit 4: Capital Projects**

This report provides a brief summary of the capital projects.

#### **Exhibit 5: Grants**

This provides a summary of spending in each of our major grant funded programs.

#### **Exhibit 6: Investments**

This provides a summary of the allocation of our investment portfolio as well as the investment earnings during the first quarter of this year.

#### **Exhibit 7: Risk**

This provides a report of claims payments made to liability claimants during the first quarter in accordance with Council resolution #8810.

#### **Exhibit 8: Contracts**

This provides a summary of the number of contracts that were authorized during the first quarter of FY05.

#### **Exhibit 9: Status of Audits of Non-City Agencies**

Audit Services monitors non-city agencies for compliance with audit or sworn statement requirements. This table is provided quarterly to give the City Council a status report on the number of agencies that have submitted audits or sworn statements.

#### **Exhibit 10: Impact Fees**

This table shows the amount of impact fee funds available for streets, open space and parks, by zone.

#### **Exhibit 11: Tax Collections**

This provides tax levy analysis and shows the year-to-date tax collection percentage.

#### **Exhibit 12: Downtown Revitalization Fund Expenses**

This provides detail of expenses out of the Downtown Revitalization Fund.

**Exhibit 13: Ice Storm Audit**

This provides an narrative update on the December 2002 Ice Storm– Final Audit.

**Exhibit 14: Planned Debt Issuance**

This report summarizes the planned debt issuance for 2005, including authority from the 1996 General Obligation Bonds and future Certificates of Participation.

**Exhibit 15: Audit Services Status Report**

On October 25, 2004, the City’s Audit Services Oversight Committee received a status report on audit recommendations for the three months ended September 30, 2004. During this period, the Audit Services Department issued one comprehensive audit report. The report included one recommendation. City management concurred with the recommendation. The attached recommendations/implementation schedule includes the follow-up status of this recommendation along with nine recommendations carried over from the previous reporting period. City Management has been actively addressing audit findings and recommendations as well as the underlying causes of findings. Practical approaches to responding to audit findings and recommendations that are both effective and efficient have been examined. These efforts have been coordinated with several initiatives of the City including the City’s ERP (Enterprise Resource Planning) project, Purchasing & Contracting Re-engineering Committee, and the internal task team approach to process improvement.

**Future Reports**

The Finance and Budget Departments have established the following reporting schedule for the quarterly financial reports to City Council. It is our intention to follow this schedule in order to provide timely information on the financial status of the City.

| Quarter                 | End of Quarter | Tables Prepared | Report Completed |
|-------------------------|----------------|-----------------|------------------|
| 1 <sup>st</sup> quarter | Sept. 30       | Oct. 30         | Nov. 15          |
| 2 <sup>nd</sup> quarter | Dec. 31        | Jan. 30         | Feb. 15          |
| 3 <sup>rd</sup> quarter | Mar. 31        | Apr. 30         | May 15           |
| 4 <sup>th</sup> quarter | Jun. 30        | Aug. 30         | Sept. 15         |